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Money/currency,
serves two purposes.

Store of value and medium of exchange.

The interest rate should be a reflection of the value of the money.

Paper dollars are great for transacting business, as a medium of exchange. They feel good in the pocket. They are safe in the bank, and easy to move. However it seems plastic cards and electronic payments systems are more practical. Visa and MasterCard are today's medium. You can't carry enough cash to get far. That goes back to the store of value.

So increasing the interest rate could be thought of as returning some value to the money.

The interest rate that the Fed can control is the overnight rate between banks. I once thought controlling the overnight rate had no effect on real, long term rates. I thought it was like me standing in the yard shaking the branch of a big oak tree. I could shake the branch but the tree didn't budge. I now realize that the government can cut off the water to the tree and kill it if they choose.

Our (any) government can manipulate the value of their currency. We are leader of the free world and have oceans on either side. In spite of our problems the dollar will be the choice of the world. Money will flow to the US from other parts of the world for income and security. Someone said "money will flow to the moon for 10%". Manipulation of the money becomes a sort of generational warfare that we'll talk about in a moment. In Securities Analysis class, Dr. Winn called the dollar the ugly sister. Winn's first lesson was that governments don't have the discipline to give us sound money over long periods of time. Bill Gross, formerly of Pimco, called the dollar "the cleanest dirty shirt".

On a trip to Russia our interpreter named Sergie was eating his apple down to the core, seeds and all. The only thing he didn't eat was the stem. He grew up with bread lines. We talked about the difference in our countries. I told Sergie seemed to me we (US) had sound money and they (Russians) didn't. He could hardly understand the concept of sound money, never considered it possible.

Inflation is the generational warfare. We pass our proclivity for undisciplined financial shenanigans onto the next generation in the form of inflation, destroying the value of the currency. In my job as a stock boy in high school in the early 70's, Johnson & Johnson baby shampoo cost 39 cents. My wife paid 1.59 for our babies in the mid- 80s and today my daughter pays \$2.95 and doesn't know or care what it cost in the 80s. JNJ will keep making baby shampoo at a profit and mothers will keep buying it.

I once read in Upper Room about a woman in Oslo, Norway who had taken her grown children out to dinner and was shocked to spend \$100 and her children thought that it was just another night out. The story had a spiritual meaning omitted here, but that's the financial lesson.

We are currently in a deflationary cycle. Commodity prices (like coffee, oil, gold) are another interrelated subject.

So money will continue to flow to the US and the politicians will use the value of our money as a weapon and the corporations will be pass it on to the consumer.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.